East Coast Main Line Company Limited

Annual Report and Financial Statements

For the year ended 31 March 2011

Company number 04659708

Registered office:

One Kemble Street
London
WC2B 4AN

East Coast Main Line Company Limited

Company Information

Company information for the year ended 31 March 2011.

Directors:	Elaine Holt Karen Boswell Andy Cope Ian Duncan Tim Hedley-Jones Michael Holden Tim Kavanagh Andrew Meadows Philip Cameron Daniel Williams Doug Sutherland Peter Williams
Company Secretary:	Rowena Nixon
Registered Office:	One Kemble Street London WC2B 4AN
Registered Number:	04659708
Independent Auditors:	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

East Coast Main Line Company Limited

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East Coast Main Line Company Limited
Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2011.

Principal Activities
The principal activity of East Coast Main Line Company Limited ("the Company") is to manage and operate the East Coast railway franchise until such a time when ownership of the Company is returned to the private sector.

Visit the website www.eastcoast.co.uk for information on timetables, fares and further information on the business.

History and Background
The East Coast main line is a 393 mile (632 kilometre) long electrified high-speed railway linking London, Peterborough, Doncaster, Leeds, York, Newcastle, Edinburgh and beyond and operates a frequent high speed passenger service along this route. The route forms a key north-south artery on the eastern side of Britain and carries key commuter flows for the north side of London. It handles cross-country, commuter and local passenger services, as well as freight traffic.

The line dates back to 1846 and was built by three railway companies, The North British Railway, the North Eastern Railway and the Great Northern Railway, each serving their own area – but with the intention of linking up to form the through route that became the East Coast Main Line.

Company Name
The Company was incorporated on 7 February 2003. On 15 July 2009 the Company changed its name from Abbey Rail Limited to East Coast Main Line Company Limited.

Corporate Structure
The Company is a wholly owned subsidiary of Directly Operated Railways Limited which is the company set up by the Department for Transport to oversee any train operating company temporarily returning to the public sector. Directly Operated Railways Limited is itself a wholly owned subsidiary of the Secretary of State for Transport.

Health and Safety
The safety of employees and customers is of prime importance and working with partners such as British Transport Police, Network Rail and other key stakeholders, the Company will continue to put in place initiatives that will ensure, so far as is reasonably practicable, the health, safety and welfare of its staff and our customers. To this end, East Coast's 2011/12 Safety Plan sets risk based and targeted objectives which will maintain, and further improve, the significant achievements in safety performance delivered during 2010/11. Each objective is aligned to four safety themes which enshrine the company's Vision for Safety. In particular, the Plan contains 17 Corporate Objectives to improve safety on a generic basis and a further 27 objectives targeted at improving safety within Engineering, Customer Services and Operations.

East Coast Main Line Company Limited
Directors' Report

Environment
East Coast intends to actively combat climate change in three ways: making its own operations more carbon-efficient, working with Government and other bodies such as the WWF and the Climate Group to help shape lower carbon transport policies and directly encouraging people to switch to public transport. East Coast is working towards improving efficiency and reducing energy consumption in its rolling stock, train depots, stations and offices and is actively taking part in the Government's scheme for Carbon Reduction (CRC). East Coast's 2011/12 Environment Plan sets challenging targets for improving environmental performance, which will be achieved by investing in new technologies, putting in place simple new processes to reduce the use of natural resources, and increasing awareness amongst employees and third parties.

Directors
The following directors have held office since 1 April 2010 and up to the date of this report unless stated otherwise:

Elaine Holt	Chairman	Appointed 30 July 2009
Karen Boswell	Managing Director	Appointed 14 November 2009
Andy Cope	Non-Executive Director	Appointed 20 August 2009
Ian Duncan	Director	Appointed 24 March 2010
Tim Hedley-Jones	Director	Appointed 14 November 2009
Michael Hogg	Director	Appointed 14 November 2009 Resigned 4 October 2010
Michael Holden	Non-Executive Director	Appointed 20 August 2009
Tim Kavanagh	Director	Appointed 14 November 2009
Andrew Meadows	Director	Appointed 14 November 2009
Joanna North	Director	Appointed 24 March 2010 Resigned 17 September 2010
Neil Clucas	Director	Appointed 4 November 2010 Resigned 24 June 2011
Philip Cameron	Director	Appointed 30 December 2010
Daniel Williams	Director	Appointed 7 October 2010
Doug Sutherland	Non-Executive Director	Appointed 20 August 2009
Peter Williams	Director	Appointed 24 March 2010
Graeme Wright	Employee Director	Appointed 17 June 2010 Resigned 16 June 2011

Company Secretary
The Company Secretary during the year was Rowena Nixon who was appointed on 8 February 2010.

Audit Committee
The Audit Committee is chaired by Doug Sutherland, Non-Executive Director. The Audit Committee is responsible for reviewing and advising on the internal and external financial statements, internal control systems and other matters related to the conduct of the Company's financial affairs.

Employees
The Company is a non-discriminatory employer operating an Equal Opportunities Policy which aims to eliminate unfair discrimination, harassment, victimisation and bullying. The Company is committed to ensuring all individuals are treated fairly, with respect, and are valued irrespective of disability, gender, race, health, social class, sexual preference, marital status, nationality, religion, employment status, age or membership or non-membership of a trade union.

East Coast Main Line Company Limited
Directors' Report

The Company's policy is to continue to employ those who become disabled in service, together with some recruitment where circumstances permit. Training is adjusted to cater for an individual's disability and they share the same conditions of service as other staff in relation to career development and promotion.

The Company is committed to employee involvement and uses a variety of methods to inform and consult with its employees. These include the Company newsletter entitled 'It's your East Coast' and m@inline, the Company intranet. Informal communication across the Company includes briefings and meetings with staff supported by posters and weekly bulletins. The Company has regular dialogue with employees and representatives from trades unions. An Employee Director was elected by employees and was formally appointed to the Board on 17 June 2010.

Charitable and political contributions

The company made charitable donations totalling £23,790 during the 52 weeks ended 31 March 2011 (20 weeks ended 31 March 2010: £nil). These include £20,000 in respect of National Rail Chaplain services and £2,500 for Children in Need. There were no political donations made in the year (20 weeks ended 31 March 2010: £nil).

Supplier payment policy

It is the Company's policy to agree terms of payment prior to commencing trade with any supplier and to abide by those terms based on the timely submission of invoices. At 31 March 2011, the number of creditor days outstanding for the Company was 29 days (2010: 39 days).

CORPORATE GOVERNANCE

The Company seeks to adhere to the principles of good corporate governance where appropriate for a Company of its size and operations.

The Board of Directors:

The Board

The board currently consists of the Chairman, nine Executive Directors, three Non-Executive Directors and one Employee Director. The board met on sixteen occasions during the year and is responsible for monitoring the operational and financial performance of the Company, reviewing progress against the Company's budgets and setting and reviewing its business plans.

The Directors are satisfied that the current board has the breadth of business, financial and operational experience necessary to manage effectively an organisation of the size and type of the Company.

Information and Board Development

The board receives detailed briefing papers and reports on the business to be conducted at each meeting one week in advance of the meeting.

All Directors have access to the advice and services of the Company Secretary and, if necessary, can seek independent professional advice at the Company's expense in the furtherance of their duties.

East Coast Main Line Company Limited
Directors' Report

Directors receive induction training on appointment to the board which is tailored to their individual needs and experience. Information is provided to Directors on their responsibilities, and regulatory and legal obligations.

Directors' and Officers' liability insurance
The Company has Directors' and Officers' liability insurance cover in place as permitted by the Companies Act 2006.

Board Committees
The board has delegated certain matters to committees of the board. The principal committees are as follows:

Executive Committee
The Executive Committee comprises the Executive Directors and meets on a weekly basis to consider matters which arise in the ordinary course of the Company's business. The Committee is chaired by the Managing Director.

Safety Committee
The Safety Committee comprises the Executive Directors and meets on a four weekly basis to consider safety matters which arise in the course of the Company's operations. The Committee is chaired by the Managing Director. The Committee may request other managers and officers of the Company to attend if necessary.

Audit Committee
The Audit Committee is chaired by Doug Sutherland and includes Michael Holden and Andy Cope. Karen Boswell, Tim Kavanagh, Elaine Holt and the Financial Controller of Directly Operated Railways Limited also attend meetings of the Committee when appropriate. The Committee may request the Executive Directors and any other officers of the Company to attend its meetings but none has the right of attendance.

The Committee met on three occasions during the year ended 31 March 2011 and it is anticipated that the Committee will meet at least three times during each year. The Company's external auditors will be invited to attend future meetings of the Committee where appropriate.

Under its terms of reference the Committee keeps under review the Company's internal and external financial statements and reports to ensure that they reflect best practice.

The Committee ensures that the internal audit department is adequately resourced and has appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards and has adequate standing within the Company. It considers audit reports on the Company from the internal auditors and reviews and monitors management's responsiveness to the findings and recommendations.

The Committee is responsible for making recommendations to the board in respect of the appointment and re-appointment of the Company's external auditors and recommends to the board the audit fee to be paid to the external auditors.

East Coast Main Line Company Limited
Directors' Report

Financial Reporting
The Directors have a commitment to best practice in the Company's financial reporting and systems. A statement of the Directors' responsibility for preparing the financial statements may be found on page 8.

Internal Controls
The board is responsible for establishing the Company's goals and objectives, and overseeing the establishment, implementation and review of the Company's risk management system. The Company has in place a risk management policy, the purpose of which is to ensure that risk management is an integral part of day-to-day operations for all staff.

The board is also responsible for maintaining a sound system of internal control that supports the achievement of these goals and objectives. It sets appropriate policies on internal control and seeks regular assurance that will enable it to satisfy itself that the system is functioning effectively.

The system of internal control is designed to manage risk rather than eliminate it completely and can only provide reasonable rather than absolute assurance against material misstatement or loss.

Key risks and uncertainties
There are a number of potential risks and uncertainties that could have an impact on the Company's performance and objectives.

The Company is subject to numerous laws relating to safety procedures, equipment, employment, environmental initiatives and procedures and other operating issues and considerations. These laws and regulations are subject to alteration and amendment and the costs of compliance with new legislation and regulations may have an adverse impact on the Company's financial performance.

To mitigate the risk from such changes the Company uses its parent company, Directly Operated Railways Limited, to engage both Government and railway groups.

Terrorist incidents or terrorist campaigns (direct or an attack on other public transport) could adversely impact operations and passenger demand. The Company has a security programme in place which meets TRANSEC requirements and attends Association of Train Operating Companies Emergency Planning Meetings. The Company has a rigorous, ongoing training and inspection regime in place.

The retention and recruitment of key personnel is essential to ensure that the Company has the correct level of expertise and industry knowledge. This is of particular concern due to the short term nature of the franchise. To mitigate this risk a succession planning review has been undertaken to identify key posts and individuals.

The new timetable change which was launched on 22 May 2011 is the biggest railway change of the East Coast Main Line since privatisation and is a fundamental change to the delivery of our service and the first class offer. The change includes an additional 19 services per week day and will deliver improved customer services and an enhanced First Class experience by including a complimentary meal within the ticket price to attract more travellers to First Class. 2012 passenger revenue is predicated on successful delivery of the offer and as such considerable investment, resource and marketing has been devoted to ensuring the venture is a success.

Telesales and related call centre activity is currently handled on behalf of East Coast by National Express at a call centre in Newcastle. During the year this work was tendered with a view to appointing a new supplier.

The call centre contract was awarded to Intelenet and ATOS Origin on 18 March 2011 and will transfer early July 2011. Customer Relations and the Assisted Travel functions will be transferred to Intelenet and will be relocated to Plymouth, Telesales functions to Mumbai in India and Delay Repay to Plymouth with the back office elements to Mumbai. The web support function will be transferred to ATOS Origin. A project team has been established and migration activity is well underway, East Coast is focused on ensuring robust controls are in place both during the transition and going forwards and that customer service levels are maintained throughout.

Auditors
PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and in accordance with Section 487 of the Companies Act 2006, PricewaterhouseCoopers LLP shall be deemed to be re-appointed as the Company's auditors 28 days after the financial statements are sent to members.

OPERATIONAL REVIEW

The primary measure of operational performance for the business is punctuality as reported in the National Rail Trends, Public Performance Measure (PPM). At the end of the year the Company's operation moving annual average (MAA) was 83.3% (2010: 87.4%). The severe bad weather experienced in the winter months coupled with significant infrastructure issues are key drivers for the year on year deterioration of the MAA. Four-fifths of delays are as a result of infrastructure failure.

Fundamentally East Coast is a good, profitable business. However, the impact of franchise changes dating back as far as 2005, have seriously affected the performance of the Company. The full extent of this did not become apparent until July 2010. In getting to the root cause of many of the issues encountered it became clear that steps were needed not merely to take control but to undertake a thorough turnaround. The focus has been to provide clarity and help the business to prioritise within realistic timescales, to ensure that each of the stated goals is achieved, to add value to the business and hand over the franchise in better shape.

Many of the issues are now understood, and having 'taken control', results are starting to improve. There are clear plans across all areas of the business, which will continue to drive that improvement.

It is anticipated the franchise will remain under the ownership of the Company for up to a further 2 years, during which time interested parties will be invited to bid to operate the Inter City East Coast franchise.

East Coast Main Line Company Limited
Directors' Report

FINANCIAL REVIEW

The comparison year is for a 20 week period ending 31 March 2010, therefore direct comparisons to the year to 31 March 2011 are not possible.

The Company made a profit after tax in the year of £5.1m (20 weeks ended 31 March 2010: £1.2m); Turnover for the year ended 31 March 2011 was £644.6m (20 weeks ended 31 March 2010: £231.6m) which reflects ticket income earned from passenger services and associated income earned from catering, car park and commission from the sale of tickets on other train operators services. The operating expenditure reported in the year was £640.1m (20 weeks ended 31 March 2010: £230.3m) with a profit before taxation of £7.9m (20 weeks ended 31 March 2010: £1.9m).

The Company generated an operating surplus of £180.8m (20 weeks ended 31 March 2010: £52.1m), of which £176.3m (20 weeks ended 31 March 2010: £50.8m) was paid as franchise premium, giving an operating profit of £4.6m (20 weeks ended 31 March 2010: £1.3m).

During the year the changes in the public sector travel policy and general economic market conditions have had a significant effect on the Company's passenger revenue, with year on year growth of 2% compared to the overall industry figure of 7% and the long distance figure of 8%. This weaker performance reflects the disparity in the economic conditions in regions served by East Coast which have fallen behind the rest of the country, particularly London and the South East. Passenger revenue was also affected by the severe bad weather during November and December 2010; this was however offset by favourable Schedule 4 and 8 performance payments by Network Rail to compensate for non-availability of the infrastructure.

On 14 November 2009 the assets and liabilities of NXEC Trains Limited were acquired by the Company. The transfer value was provisional as at 31 March 2010 and a final settlement has been reached during the year, resulting in an adjustment to goodwill.

The Company has a £40m Working Capital Facility Agreement in place with Directly Operated Railways Limited to ensure sufficient funds are available in order to meet its supplier commitments. During the year no draw down on this facility was made.

The Directors do not recommend the payment of any dividend for the year ended 31 March 2011 (20 weeks ended 31 March 2010: £nil).

East Coast Main Line Company Limited
Directors' Report

Statement of directors' responsibilities
The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and to
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement of disclosure of information to auditor

The Directors who held office at the date of approval of the Directors' report confirm that:

- so far as the Directors are aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Tim Kavanagh
Director
24 June 2011

Registered Office
1 Kemble Street
London
WC2B 4AN

East Coast Main Line Company Limited
Independent Auditors' Report
For the year ended 31 March 2011

We have audited the financial statements of East Coast Main Line Limited for the year ended 31 March 2011 which comprise of the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors
As explained more fully in the Statement of Directors' responsibilities set out on page 8 the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Philip Sayers (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
24 June 2011

East Coast Main Line Company Limited
Profit and Loss Account
For the year ended 31 March 2011

	Note	52 weeks ended 31 March 2011 £'000	20 weeks ended 31 March 2010 £'000
Turnover			
Passenger income		**578,387**	208,595
Other operating income		**66,259**	23,000
Total Turnover	2	**644,646**	231,595
Operating costs		**(640,087)**	(230,292)
Operating profit	3	**4,559**	1,303
Net interest receivable/(payable)	6	**247**	(286)
Other finance income: Pensions	22	**3,129**	883
Profit on ordinary activities before taxation		**7,935**	1,900
Taxation on profit on ordinary activities	7	**(2,827)**	(703)
Profit for the financial year		**5,108**	1,197

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

East Coast Main Line Company Limited
Statement of Total Recognised Gains and Losses
For the year ended 31 March 2011

	52 weeks ended 31 March 2011 £'000	20 weeks ended 31 March 2010 £'000
Profit for the financial year	**5,108**	1,197
Actuarial (loss)/profit on defined benefit pension scheme	**(3,829)**	235
Movement on deferred tax relating to defined benefit pension scheme	**995**	(66)
Total recognised gains and losses relating to the year	**2,274**	1,366

East Coast Main Line Company Limited
Balance Sheet
As at 31 March 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Intangible assets	8	-	13,732
Tangible assets	9	**7,769**	5,985
Investments	10	-	-
Total fixed assets		**7,769**	19,717
Current assets			
Stock	11	**4,453**	4,172
Debtors	12	**72,912**	51,159
Cash at bank and in hand		**39,919**	35,918
Total current assets		**117,284**	91,249
Creditors: amounts falling due within one year	13	**(116,206)**	(102,252)
Net current assets/(liabilities)		**1,078**	(11,003)
Total assets less current liabilities		**8,847**	8,714
Creditors: amounts falling due after one year	14	**(1,576)**	(6,406)
Provisions	15	**(372)**	(44)
Net assets excluding net pension liability		**6,899**	2,264
Net pension liability	22	**(3,259)**	(898)
Net assets including net pension liability		**3,640**	1,366
Capital and reserves			
Share capital	17	-	-
Profit and loss account	18	**3,640**	1,366
Total shareholder's funds		**3,640**	1,366

On behalf of the Board

Tim Kavanagh
24 June 2011

Company number 04659708
The notes on pages 13 to 29 form an integral part of these financial statements.

East Coast Main Line Company Limited
Notes to the Accounts
For the year ended 31 March 2011

1. Accounting policies

a) Fundamental accounting concept

The financial statements have been prepared on a going concern basis. The Directors have reviewed the subsequent trading results and the forecasts for future trading. The Company is expected to trade profitably for the foreseeable future and to be able to meet all its liabilities as they fall due. Consequently, the Directors believe that it is appropriate to prepare these financial statements on a going concern basis.

b) Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies which have been applied consistently are set out below.

c) Related party transactions

The Company has taken advantage of the exemption under FRS 8 from providing details of related party transactions with fellow group undertakings, which are 90% or more owned, as they are included within the consolidated financial statements of its immediate parent company, Directly Operated Railways Limited, which are publicly available.

d) Cash flow statement

The Company is a wholly-owned subsidiary of Directly Operated Railways Limited (a Company registered in England & Wales) and is included in the consolidated financial statements of that company which are publically available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1, "Cash Flow Statements (revised 1996)".

e) Turnover

(i) Passenger income represents amounts agreed as attributed to the Company by the income allocation systems of the Rail Settlement Plan Limited, mainly in respect of passenger receipts. Income is attributed based principally on models of certain aspects of passengers' travel patterns and, to a lesser extent, from allocations agreed for specific revenue flows. The attributed share of season ticket income is deferred within creditors, and released to the profit and loss account over the year of the relevant season ticket.

(ii) Other income is derived from ticket commissions, station trading income, catering sales, depot and station access payments, performance regime payments, and the provision of goods or services to other train operating companies and excludes VAT. Revenue is recognised upon completion of services or delivery of goods. Revenue from services is recognised on the basis of agreed rates. Commission income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

f) Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

g) Deferred tax

Deferred tax is recognised in respect of all material timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at tax rates that are expected to apply in the periods in which the timing differences reverse. Deferred tax assets are recognised where their recovery is considered more likely than not in that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

1. Accounting policies (continued)

h) Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic cost less accumulated depreciation. Depreciation is provided on a straight line basis to write off the cost less estimated residual value of fixed assets over their expected useful economic lives as follows:-

Short leasehold land & buildings	3 - 10 years or lease term
Plant and equipment	3 - 10 years or lease term

i) Intangible fixed assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its estimated useful economic life, which is 2 years 5 months. The Company evaluates the carrying value of goodwill in each financial year to determine if there has been any impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

Intangible fixed assets - lease premium

Lease premiums are shown at historical cost. Amortisation is calculated using the straight-line method over the useful life, based on the lease period. The Company evaluates the carrying value of lease premiums in each financial year to determine if there has been any impairment in value, which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the profit and loss account.

j) Leased assets

Assets held under finance leases are included as tangible fixed assets and depreciated over their expected useful lives. The corresponding obligations relating to finance leases, excluding finance charges allocated to future periods, are included in creditors. Finance costs are allocated to the profit and loss account over the period of the lease in accordance with the interest rate inherent in the lease.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the lease term.

k) Stock

Stock is valued at the lower of cost and net realisable value on a weighted average cost basis. Cost comprises direct costs and excludes borrowing costs. Net realisable value is the estimated replacement value of stock. Where necessary, provision is made for obsolete, slow moving and defective stocks.

l) Grants

Capital grants are credited to deferred grant income and released to the profit and loss account over the estimated useful economic lives of the related assets.

East Coast Main Line Company Limited
Notes to the Accounts
For the year ended 31 March 2011

1. Accounting policies (continued)

m) Retirement benefits

The Company contributes to a defined benefit pension scheme on behalf of the majority of employees. Full details are provided in note 23.

The Company participates in the Railway Pension Scheme, a defined benefit scheme which covers the whole of the UK Rail industry. This is partitioned into sections and the Company is responsible for the funding of the sections whilst it operates the relevant franchise. In contrast to the pension schemes operated by most businesses, the RPS is a shared cost scheme, which means that costs are formally shared 60% employer and 40% employee.

The trustees complete a full actuarial valuation triennially, separately for each section of the RPS, but the obligation is updated annually by independent actuaries using the projected unit credit method for financial reporting purposes.

The current service cost and gains and losses on settlements and curtailments are recognised in staff pension costs within operating costs in the income statement. Past service costs are included in operating costs where the benefits have vested, otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit schemes and the interest on pension scheme liabilities comprise the finance element of the pension cost and are included in interest costs. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to the statement of total recognised gains and losses in the period in which they arise.

The charges in respect of defined contribution schemes are recognised when they are due. The Company has no legal or constructive obligation to pay further contributions into a defined contribution scheme if the fund has insufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

m) Provisions

Provisions for current obligations and legal claims are recognised when: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

o) Investments

Fixed asset investments are initially recognised at cost and thereafter are carried in the balance sheet at cost less any impairment in value. All the fixed assets investments are subject to an impairment review at any time if events or changes in circumstances indicate that their carrying value may not be recoverable.

East Coast Main Line Company Limited
Notes to the Accounts
For the year ended 31 March 2011

2. Turnover

All turnover originates in the United Kingdom.

The Directors consider that the whole of the activities of the Company constitute a single class of business consisting of passenger and other related operating income as disclosed in the Profit and Loss Account.

3. Operating profit

	52 weeks ended 31 March 2011 £'000	20 weeks ended 31 March 2010 £'000
Operating profit is stated after charging/(crediting):		
Staff Costs (note 5)	**114,519**	41,449
Depreciation – Owned assets	**2,161**	669
Depreciation – Finance lease	**-**	42
Impairment charge (note 8)	**7,800**	-
Amortisation of goodwill	**(2,278)**	2,635
Amortisation of fixed asset grants	**(185)**	-
Operating lease rentals		
- Fixed track access	**43,524**	16,087
- Land and buildings	**1,351**	515
- Rolling stock costs	**83,132**	31,407
- Other	**11,124**	3,897
Auditors' remuneration – audit fees	**72**	68
Auditors' remuneration – non audit fees	**10**	9

4. Directors' emoluments

	52 weeks ended 31 March 2011 £'000	20 weeks ended 31 March 2010 £'000
Emoluments in respect of qualifying services to the Company	**1,197**	570
Company pension contributions	**216**	50
	1,413	620

The emoluments excluding pension contributions of the highest paid Director were £205,712 (20 weeks ended 31 March 2010: £111,026).
The accrued pension contributions of the highest paid Director at 31 March 2011 were £30,883 (20 weeks ended 31 March 2010: £5,388).

Elaine Holt, Doug Sutherland, Andrew Cope and Michael Holden received no remuneration from the Company in the year to 31 March 2011.

Termination Payments relating to one Director amounted to £94,038.

East Coast Main Line Company Limited
Notes to the Accounts
For the year ended 31 March 2011

5. Staff costs

	52 weeks ended 31 March 2011 £'000	20 weeks ended 31 March 2010 £'000
Wages and salaries	**94,267**	34,434
Social security costs	**6,704**	2,370
Pension costs	**10,939**	3,579
Other Costs	**2,609**	1,066
	114,519	41,449

The average number of full-time equivalent employees (including Directors) during the year was as follows:

	52 weeks ended 31 March 2011 000	20 weeks ended 31 March 2010 000
Managerial and administrative	**449**	429
Operational	**2,276**	2,273
	2,725	2,702

6. Interest

	52 weeks ended 31 March 2011 £'000	20 weeks ended 31 March 2010 £'000
Interest receivable		
Bank interest	**82**	21
Other interest receivable	**246**	-
	328	21
Interest payable		
Bank interest	**(81)**	(45)
Interest payable to group undertakings	**-**	(119)
Other interest payable	**-**	(143)
Total interest payable	**(81)**	(307)
Net interest receivable/(payable)	**247**	(286)

7. Taxation

(a) The tax charge on the profit on ordinary activities before taxation is made up as follows:

	52 weeks ended 31 March 2011 £'000	20 weeks ended 31 March 2010 £'000
Current taxation:		
UK corporation tax on profits of the year	**1,217**	602
Adjustment in respect of previous years	**1,288**	-
Group relief	**375**	14
	2,880	616
Deferred taxation:		
Origination and reversal of timing differences (note 16)	**(78)**	(26)
Defined benefit pension	**25**	113
	(53)	(87)
Tax charge on profit on ordinary activities	**2,827**	703

(b) The tax for the year is higher (2010: higher) than the standard effective rate of corporation tax in the UK of 28% (2010: 28%). The current tax charge is made up as follows:

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	**7,935**	1,900
Notional charge at UK corporation tax rate of 28%	**2,222**	532
Not deductible expenses	-	2
Income not subject to tax	**(637)**	-
Capital allowances lower than/(in excess of) depreciation	**444**	(247)
Amortisation of goodwill not deductible	-	60
Other timing differences	**(437)**	269
Prior year adjustments	**1,288**	-
Current tax charge for the year	**2,880**	616

During the year, as a result of the change in the UK main corporation tax rate from 28% to 26% that was substantively enacted on 20 July 2010 and that is effective from 1 April 2011, the relevant deferred tax balances have been re-measured.

Further reductions to the UK corporation tax rate were announced in the June 2010 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 23% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

In addition to the changes in rates of Corporation tax disclosed above, a number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

East Coast Main Line Company Limited
Notes to the Accounts
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8. Intangible fixed assets

	Lease Premium £'000	Goodwill £'000	Total £'000
Cost			
At 1 April 2010	-	16,367	16,367
Additions at Cost	7,800	-	7,800
Adjustment to provisional fair value	-	(16,010)	(16,010)
At 31 March 2011	**7,800**	**357**	**8,157**
Amortisation			
At 1 April 2010	-	(2,635)	(2,635)
Impairment charge	(7,800)	-	(7,800)
Adjustment to provisional fair value	-	2,278	2,278
At 31 March 2011	**(7,800)**	**(357)**	**(8,157)**
Net book amount at 31 March 2011	**-**	**-**	**-**
Net book amount at 31 March 2010	**-**	**13,732**	**13,732**

The lease premium relates to a payment made for the transfer of a lease for an HST set.

9. Tangible fixed assets

	Leasehold Land & Buildings £'000	Plant and Equipment £'000	Total £'000
Cost			
At 1 April 2010	2,578	4,118	6,696
Additions at Cost	320	3,625	3,945
Disposals	-	(17)	(17)
At 31 March 2011	**2,898**	**7,726**	**10,624**
Depreciation			
At 1 April 2010	(279)	(432)	(711)
Charge for the year	(423)	(1,738)	(2,161)
Disposals	-	17	17
At 31 March 2011	**(702)**	**(2,153)**	**(2,855)**
Net book amount at 31 March 2011	**2,196**	**5,573**	**7,769**
Net book amount at 31 March 2010	**2,299**	**3,686**	**5,985**

There were no assets held under finance leases at the year end.

East Coast Main Line Company Limited
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For the year ended 31 March 2011

10. Investments

The Company held the following unlisted investments at 31 March 2011:

	Country of Registration	No. of shares held	Class of share	Proportion held
ATOC Limited	UK	1	Ordinary (4p)	5%
Rail Settlement Plan Limited	UK	1	Ordinary (4p)	5%
Rail Staff Travel Limited	UK	1	Ordinary (4p)	5%
NRES Limited	UK	1	Ordinary (£1)	5%

The principal activity of the above companies is to provide a range of services to all UK passenger rail operators, each of which has an equal share in the companies.

11. Stock

	2011 £'000	2010 £'000
Raw Materials and consumables	**4,453**	4,172

There is no material difference between the replacement value of stock and its cost.

12. Debtors

	2011 £'000	2010 £'000
Trade debtors	**49,160**	33,990
Amounts due from group undertakings	**58**	-
Other debtors	**8,330**	5,527
Deferred consideration	**6,639**	-
Prepayments and accrued income	**7,188**	11,616
Corporation tax	**1,433**	-
Deferred tax	**104**	26
	72,912	51,159

Amounts due from group undertakings are unsecured, interest free and repayable on demand.

The deferred consideration of £6,639,000 represents the discounted debt due from NXEC in relation to the transfer of net liabilities from NXEC. The total debt due is £6,889,000 which is receivable on or before 6 January 2012.

East Coast Main Line Company Limited
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13. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Bank loans	**4,549**	7,286
Trade creditors	**70,484**	56,077
Amounts due to group undertakings	-	154
Deferred season ticket income	**4,148**	4,137
Social security and other taxation	**2,139**	1,970
Other creditors	**11,427**	7,129
Deferred consideration	-	9,530
Deferred fixed asset grants	**135**	78
Corporation tax	-	617
Accruals and deferred income	**23,324**	15,274
	116,206	102,252

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

14. Creditors: amounts falling due after one year

	2011 £'000	2010 £'000
Bank loans	**1,483**	6,031
Deferred fixed asset grants	**93**	375
	1,576	6,406

The bank loan is guaranteed by the Department for Transport and made up of two tranches. Both are repayable in quarterly instalments. Tranche A is repayable by 5 April 2012 and tranche B by 5 April 2015. At 31 March 2011 £4,054,833 was outstanding on tranche A and £1,976,302 on tranche B. The rate of interest payable is LIBOR plus 0.175 per cent in relation to Tranche A and plus 0.25 per cent in relation to Tranche B.

15. Provisions for liabilities and charges

	Insurance £'000
At 1 April 2010	44
Provided in the year	328
At 31 March 2011	**372**

Insurance Provision

The £372,000 provision relates to customer claims against the Company for compensation for injuries occurring whilst on East Coast Main Line property.

16. Deferred tax

(a) The deferred tax at rate of 26% (2010: 28%), excluding tax on the pension liability provision movement, in the year is as follows:

	2011	2010
	£'000	£'000
Opening Balance	**26**	26
Increase in the year	**78**	-
At 31 March 2011	**104**	26

b) The major components of the deferred taxation asset are as follows:

	2011	2010
	£'000	£'000
Decelerated/(accelerated) capital allowances	**30**	(311)
Other timing differences	**74**	337
Short Term timing differences	**104**	26

17. Share capital

	2011	2010
Authorised	**£**	£
Ordinary shares of £1 each	**100**	100
Allotted, called up and fully paid		
Ordinary shares of £1 each	1	1

18. Reserves and reconciliation of movements in shareholder's funds

	2011	2010
	£'000	£'000
Shareholder's funds at 1 April 2010	**1,366**	-
Actuarial (loss)/gain on defined benefit pension scheme	**(3,829)**	235
Movement on deferred tax relating to defined benefit pension scheme	**995**	(66)
Retained profit for the year	**5,108**	1,197
Shareholder's funds at 31 March 2011	**3,640**	1,366

19. Capital commitments

	2011	2010
	£'000	£'000
Contracted	**1,771**	487
Authorised but not contracted	**7,380**	1,430

20. Acquisition of business

On 14 November 2009, the Company acquired the franchise assets and liabilities from NXEC Trains Limited for a provisional amount of £3,449,000. This has subsequently been finalised at a net consideration receivable of £12,561,000. At the transfer date the estimated fair value of the franchise assets and liabilities equalled a net liability of £12,918,000. The total adjustments required to the book value of the assets and liabilities in accordance with the Company's accounting principles were £27,732,000, details of which are set out together with the resultant amount of goodwill arising.

In its last financial year to 31 December 2008 NXEC Trains Limited made a loss after tax of £15,572,000. Only certain of the assets and liabilities of NXEC Trains Limited were acquired. In these circumstances it is not practical to provide details of performance for the period immediately before acquisition.

The acquisition accounts for all of the Company's profit and loss, cash flow and capital expenditure as prior to the acquisition the Company was dormant.

The assets and liabilities as of 14 November 2009 arising from the acquisition are as follows:

	Book Value £'000	Liabilities Assumed £'000	Revaluation £'000	Provisional Fair Value £'000	Adjustment £'000	Final Fair Value £'000
Fixed Assets	32,883	-	(26,375)	6,508		6,508
Inventory	3,960	-	-	3,960		3,960
Debtors	1,416	-	-	1,416		1,416
Creditors	(8,435)	-	-	(8,435)		(8,435)
Loan	-	(15,010)	-	(15,010)		(15,010)
Pension Liability	-	(1,885)	-	(1,885)		(1,885)
Deferred tax	-	528	-	528		528
Net assets acquired	**29,824**	**(16,367)**	**(26,375)**	**(12,918)**	**-**	**(12,918)**
Goodwill				16,367	(16,010)	357
Consideration				**3,449**	**(16,010)**	**(12,561)**
Consideration satisfied by:						
Cash settlement				(6,019)		(6,019)
Deferred settlement/(receivable)				9,468	(16,010)	(6,542)
				3,449	**(16,010)**	**(12,561)**

At the time of preparing the financial statements to 31 March 2010 the purchase consideration had not been finalised. An interim settlement of £6,019,000 was received by the Company in respect of the net liability position of the transferring business. Final consideration had not been agreed and a number of balances most notably fixed assets had been referred to reporting accountants for final valuation.

The book values of the assets and liabilities were taken from the management accounts of NXEC Trains Limited at the date of acquisition, with certain assets and liabilities that are excluded from the franchise transfer agreement not taken into account.

20. Acquisition of business (continued)

The fair value adjustment for alignment of accounting policies reflects the restatement of assets and liabilities in accordance with the Company's accounting policies including the removal of certain capitalised station improvements, software development and project management costs of £26,375,000.

The £15,010,000 loan and £1,357,000 net pension scheme liability represent liabilities that have been assumed by the Company as at date of acquisition, but were not included in the assets acquired from NXEC Trains Limited as part of the transfer scheme.

On 22 December 2010 final settlement was reached for the value of assets and liabilities transferred from NXEC. A final deferred payment of £6,542,000 is due from NXEC on or before 6 January 2012 resulting in a final total consideration of £12,561,000 in respect of the £12,918,000 net liability and has generated £357,000 of goodwill. An adjustment to the deferred settlement of £16,010,000 has resulted. The final deferred payment of £6,542,000 is represented in trade debtors after discounting the settlement value of £6,889,000 using the discounted rate of LIBOR plus 4.5% (5.32% in total).

21. Operating lease commitments

The Company has the following annual commitments due under operating leases which expire as follows:

		2011			2010	
	Under 1 year	**1 – 5 years**	**5 years and over**	Under 1 year	1 – 5 years	5 years and over
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Fixed track access	**-**	**45,262**	**-**	-	43,494	-
Rolling stock	**-**	**85,619**	**-**	-	82,021	-
Land and buildings	**83**	**1,216**	**170**	90	738	384
Other	**18**	**11,249**	**-**	-	10,307	-
	101	**143,346**	**170**	90	136,560	384

The Company has contracts with Network Rail Infrastructure Limited for access to the railway infrastructure (track, stations and depots).

22. Retirement benefits

Information about the Scheme and the Company's accounting policies

General description of scheme: East Coast Main Line Company Limited operates a final salary pension scheme and is part of the Railways Pension Scheme. The assets and liabilities are identified separately from the remainder of the Scheme.

The Section is a shared cost arrangement whereby the Company is only responsible for a share of the cost. The scheme is a shared cost section because any surplus or deficit is met in the ratio of 60%/40% by the employer and employees respectively.

The figures reported below therefore represent only the Company's share of the cost, except that the tables reconciling the Section liabilities and assets from the start to the end of the year are presented before the deduction of the members' share of the defined benefit cost, or the surplus or deficit. This is for simplicity of presentation and for consistency with the liabilities and assets quoted in the table showing the pension scheme liability or asset at the end of the year.

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22. Retirement benefits (continued)

Employer contributions for the year ending 31 March 2011 are 15.84% (2010: 15.84%) of Section Pay. This rate is expected to continue until 30 June 2012 when the employer contribution rate will revert to 60% of the long-term joint contribution rate of 25.4% of Section Pay.

The Section is open to new members.

A change introduced by the Government during the year permits inflationary pension increases to be linked to CPI rather than RPI. The effect of this change on the Section is to reduce the liabilities by £49,391,000.

An actuarial valuation of the East Coast Main Line pension scheme using the projected unit basis, was carried out at 31 March 2011 by Towers Watson, independent consulting actuary. The major assumptions used by the actuary were:

Summary of assumptions

	31 March 2011 % pa	31 March 2010 % pa
Discount rate	5.6	5.5
Price inflation (RPI measure)	3.6	3.7
Increases to deferred pensions (2011: CPI measure)	2.6	3.7
Pension increases (2011: CPI measure)	2.6	3.7
Salary increases *	4.1	4.7
Expected return on Section assets	7.5	7.8

* A salary increase of 5.5% has been assumed in April 2011.

The assets in the scheme and expected rates of return were:

	Long-term rate of return expected on 31 March 2011 % pa	Value at 31 March 2011 £000	Long-term rate of return expected on 31 March 2010 % pa	Value at 31 March 2010 £000
Equities	7.8	237,459	8.2	215,222
Government bonds	4.4	15,467		
Non-Government bonds	5.5	13,851	4.5	24,732
Property	7.5	12,348	7.8	11,153
Other assets	3.8	469	4.0	595
Total asset value	**7.5**	**279,594**	**7.8**	**251,702**

22. Retirement benefits (continued)

The assumed average expectation of life in years at age 65 is as follows:

		31 March 2011	31 March 2010
Male currently age 65	Pension under £8,500 pa or pensionable pay under £30,000 pa	19.8	19.8
	Others	21.5	21.5
Male currently age 45	Pension under £8,500 pa or pensionable pay under £30,000 pa	22.2	22.2
	Others	23.7	23.7
Female currently age 65	Pension under £3,000 pa or pensionable pay under £30,000 pa	21.7	21.7
	Others	22.7	22.7
Female currently age 45	Pension under £3,000 pa or pensionable pay under £30,000 pa	23.2	23.2
	Others	24.2	24.2

Reconciliation of present value of scheme liabilities

	Year ended 31 March 2011 £'000	Period ended 31 March 2010 £'000
Opening Section liabilities	384,093	322,595
Service Cost	17,805	5,498
Interest Cost	21,872	7,290
Interest on short term adjustment	(4,300)	(1,174)
(Gain)/Loss on Section liabilities	(66,802)	52,274
Actual benefit payments	(7,830)	(2,390)
Closing Section liabilities	**344,838**	**384,093**

22. Retirement benefits (continued)

Pension Scheme (Liability)/Asset at end of year

	Year ended 31 March 2011 £'000	Period ended 31 March 2010 £'000
Total asset value	279,594	251,702
Present value of scheme liabilities	(344,838)	(384,093)
Total deficit	**(65,244)**	**(132,391)**
Members' share of deficit	26,098	52,956
Deficit expected to be recovered after the end of East Coast's involvement with the Section	34,742	78,188
Pension scheme deficit attributable to the employer before deferred tax	**(4,404)**	**(1,247)**
Deferred tax	**1,145**	349
Pension scheme deficit attributable to the employer after deferred tax	**(3,259)**	**(898)**

Reconciliation of Pension Scheme (Liability)/Asset

	Year ended 31 March 2011 £'000	Period ended 31 March 2010 £'000
Opening Pension Scheme (Liability)/Asset	(1,247)	(1,885)
Employer's share of pension (cost)/income	(7,805)	(2,504)
Employer contributions	8,477	2,907
Total Gain/(Loss) recognised in STRGL	(3,829)	235
Closing Pension Scheme (Liability)/Asset	**(4,404)**	**(1,247)**

Sensitivity analysis of scheme liabilities

The sensitivity of the present value of scheme liabilities to changes in the principle assumptions used is set out below.

	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/ decrease by 0.1%	Increase/ decrease by 10.1%
Rate of inflation	Increase/ decrease by 0.1%	Increase/ decrease by 32.2%

The effect of changing the discount rate is small due to the offsetting impact of the short term adjustment for this Section.

The effect of changing the inflation rate is also small due to the offsetting impact of the short term adjustment for this Section. The liability decreases rather than increases as would normally be expected because the deficit projected to 31 March 2013 is larger, resulting in a larger credit from the adjustment relating to East Coast's short term involvement in this operation.

22. Retirement benefits (continued)

Reconciliation of fair value of scheme assets

	Year ended 31 March 2011 £'000	Period ended 31 March 2010 £'000
Opening value of Section assets	251,702	231,764
Expected return on assets	19,920	6,806
Gain on assets	2,116	10,826
Employer contributions	8,477	2,907
Employee contributions	5,209	1,789
Actual benefit payments	(7,830)	(2,390)
Closing value of Section assets	**279,594**	**251,702**

The expected return on Section assets assumption was determined as the average of the expected returns on the assets held by the Section on the accounting date. The rates of return for each class are set out in the table below and were determined as follows:

- **Equities and property:** The rate adopted is consistent with the median assumption used in our Asset Liability Modelling work,
- **Bonds:** The overall rate has been set to reflect the yields on the bond holdings,
- **Other assets:** This class is mostly made up of cash holdings and the rate adopted reflects current short-term returns on such deposits.

Analysis of the amount charged to profit or loss are as follows:

Disclosed pension cost

	Year ended 31 March 2011 £'000	Period ended 31 March 2010 £'000
Employer's share of Service Cost	10,934	3,387
Employer's share of Interest Cost	13,123	4,374
Interest on short term adjustment	(4,300)	(1,174)
Employer's share of expected return on assets	(11,952)	(4,083)
Employer's share of pension cost	**7,805**	**2,504**

Actuarial gains and losses

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £4,064,000 (2010: £235,000).

Defined contribution scheme

The cost of contributions to the defined contribution scheme amounts to £861,000 (2010: £343,000).

22. Retirement benefits (continued)

Historic Information

	Year ended 31 March 2011 £'000	Period ended 31 March 2010 £'000	At 14 November 2009 £'000
Section liabilities	344,838	384,093	322,595
Assets	279,594	251,702	231,764
Deficit	(65,244)	(132,391)	(90,831)
Experience loss (liabilities)	7,526	6,862	n/a
Experience gain (assets)	(1,270)	(6,496)	n/a

23. Ultimate parent undertakings

The Company is a wholly owned subsidiary of Directly Operated Railways Limited which is the Company set up by the Department for Transport to oversee any Train Operating Company temporarily returning to the public sector. Directly Operated Railways Limited is itself a wholly owned subsidiary of the Secretary of State for Transport.

The results of the Company are included in the consolidated financial statements of Directly Operated Railways Ltd for the year ended 31 March 2011; copies of these financial statements are available at the registered office.